
**Technology, Energy &
Communications Committee**

E2SSB 5111

Brief Description: Providing tax incentives for solar energy systems.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Morton, Poulsen, Parlette, Roach, Schmidt, Oke, Hewitt, Zarelli, Finkbeiner, Stevens, Swecker, Deccio, Honeyford, Mulliken, Kline and Sheldon).

Brief Summary of Engrossed Second Substitute Bill

- Establishes tax incentives for the manufacture of solar energy systems.

Hearing Date: 3/31/05

Staff: Sarah Dylag (786-7109).

Background:

Most manufacturing businesses in the state pay the general manufacturing business and occupation (B&O) tax of 0.484 percent times the value of their product. Special B&O tax classifications and rates have been enacted by the Legislature to address specialized situations, such as the semiconductor manufacturer classification, enacted in 2003, to create incentives for the semiconductor industry.

Many manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

Current law also provides additional tax incentives for certain businesses that locate in rural counties with fewer than 100 people per square mile, including the following that apply to manufacturing businesses:

- a sales and use tax exemption on buildings and equipment used in manufacturing;
- a 20 percent B&O tax credit for job training up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs; \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

Summary of Bill:

The B&O tax for businesses manufacturing solar energy systems and for businesses engaged in making sales at wholesale of solar energy systems is set at a rate equal to the value of the product multiplied by 0.138 percent. Taxes paid in manufacturing these systems is granted as a B&O tax credit. These two provisions expire on June 30, 2014.

The following additional tax incentives are provided for solar energy system manufacturers that locate in a rural county, defined as a county with less than four people per square mile:

- a sales tax exemption for the construction of new buildings;
- a use tax exemption on tangible personal property incorporated into the project;
- a B&O tax job credit of \$3,000 for each full-time manufacturing production position; and
- a property tax exemption on the machinery and equipment used in manufacturing.

No application for any of the tax incentives is necessary, except for the property tax exemption which must be filed with the appropriate county assessor. Businesses claiming exemptions or credits under this program must file annual reports with the Department of Revenue detailing employment, wages, and health and retirement benefits.

Appropriation: None.

Fiscal Note: Requested on March 18, 2005.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.